

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF TEXAS  
CORPUS CHRISTI DIVISION**

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<b>In re:</b>	§	<b>Chapter 11</b>
	§	
<b>TRANSTEXAS GAS CORPORATION, <u>et al.</u>,</b>	§	<b>Case No. 02-21926</b>
	§	
<b>Debtors.</b>	§	<b>(Jointly Administered)</b>
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**MOTION OF THE DEBTORS FOR AUTHORIZATION TO  
(I) SELL REAL PROPERTY FREE AND CLEAR OF LIENS AND OTHER  
INTERESTS PURSUANT 11 U.S.C. § 363 AND (II) ENTER INTO  
TERM PARTIAL ASSIGNMENT OF OIL, GAS & MINERAL LEASES WITH  
CHAPARRAL NATURAL RESOURCES, INC.**

TO: THE HONORABLE RICHARD S. SCHMIDT,  
UNITED STATES BANKRUPTCY JUDGE

TransTexas Gas Corporation, and certain of its subsidiaries, Galveston Bay Processing Corporation and Galveston Bay Pipeline Company, (collectively, the “Debtors”) file their motion (the “Motion”) for an order authorizing the Debtors to (i) sell property free and clear of claims and other interests and (ii) enter into a term partial assignment with Chaparral Natural Resources, Inc., and respectfully state as follows:

**Jurisdiction**

1. This Court has jurisdiction to consider this Motion pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b).

2. The relief sought in this Motion is based upon Bankruptcy Rule 1007(c).

**Background**

3. On November 14, 2002 (the “Commencement Date”), the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code (collectively, the “Chapter

11 Cases”). The Debtors continue to operate their businesses and manage their properties and assets as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. The Chapter 11 Cases are jointly administered pursuant to an Order of this Court dated November 15, 2002.

**Relief Requested**

4. The Debtor seeks authority to sell real property of the estate free and clear of liens and other interests pursuant to § 363(b) and (f) of the Bankruptcy Code and to enter into a term partial assignment of oil, gas & mineral leases to develop the property to be conveyed.

5. Debtor TransTexas Gas Corporation (“TTXG”) is an owner of the following oil, gas and mineral lease interest:

(a) the sole owner of an approximately 940.5 acre Sandy Creek lease block in the Sandy Creek Prospect located in Jackson County, Texas pursuant to four (4) Oil, Gas and Mineral leases dated from June 1, 2002 to July 2, 2002

(the “Sandy Creek Prospect”)(a summary of the individual leases are attached hereto as *Exhibit A*.

6. Debtor TransTexas Gas Corporation and Chaparral Natural Resources, Inc. (“Chaparral”) have negotiated a Term Partial Assignment of Oil, Gas & Mineral Leases (“Term Assignment) for the exploration and development of the Sandy Creek Prospects on favorable “promoted” terms. This Prospect is internally generated drilling prospects targeting Eocene Upper and Middle Wilcox Sands at depths below 12,500’ along trend with other TransTexas natural gas discoveries, including the S.W. Bonus Field, Guenther Field, Hudgins Rach Field and Jones Creek Field.

7. The sale is conditioned upon the TransTexas transferring an undivided 83.33333% interest to Chaparral in the Sandy Creek Prospect. The proposed trade with Chaparral is described as follows:

**MOTION OF THE DEBTORS FOR AUTHORIZATION TO (I) SELL REAL PROPERTY FREE AND CLEAR OF LIENS AND OTHER INTERESTS PURSUANT 11 U.S.C. § 363 AND (II) ENTER INTO TERM PARTIAL ASSIGNMENT OF OIL, GAS & MINERAL LEASES WITH CHAPARRAL NATURAL RESOURCES, INC. – page 2**  
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(1) Purchase Price: Chaparral will pay TTXG the amount of \$94,050 as a bonus payment upon delivery of the Term Assignment with a special warranty deed;

(2) Well Information: TTXG will receive well info on any well drilled by Chaparral in a large area surrounding the 940.5 acre Sandy Creek Prospect;

(3) Reversion of Rights if No Drilling Occurs: TTXG's Term Assignment of the acreage will extend only until September 11, 2003 and/or as long thereafter as Chaparral is drilling/producing;

(4) Drilling Promote: Chaparral's first well on the Sandy Creek Prospect must target depths below 11,000' (Wilcox). TTXG will retain a 1/6<sup>th</sup> leasehold interest and if Chaparral drills on the Sandy Creek Prospect, then all costs attributable to the TTXG interest through the sales hookup on the first well will be borne and paid by Chaparral. This gives TTXG a meaningful interest in the prospect at no cost or risk on the first well. Chaparral's cost for a completed 11,000'+ well will be at least \$2-3 million, so on a dollar-of-cost basis, this "carry" could be worth at least \$333,333-\$500,000 risk-free;

(5) Reversion of Deep Rights. The rights to depths 100' below Chaparral's TD will eventually revert to TTXG – 110% after Chaparral ceases drilling for 150 days; and

(6) Operations. Chaparral intends to turn over operations to Peoples Energy Production – Texas L.P. and this change of operation is approved by TTXG.

**Basis for Relief**

8. Section 363(b)(1) of the Bankruptcy Code provides that the "[t]rustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 112 U.S.C. § 363(b)(1). Such a motion may be approved if it is supported by a sound business justification. *See, Institutional Creditors of Continental Airlines, Inc. v. Continental Airlines, Inc. (In re Continental Airlines, Inc.)*, 780 F.2d 1223, 1226 (5<sup>th</sup> Cir. 1986). A bankruptcy court is to give deference to the business judgment of the trustee or debtor-in-possession when it deems the sale to be appropriate. *See, Esposito v. Title Ins. Co. of Pa. (In re Fernwood)*, 73 B.R. 616, 621 n.2 (Bankr. E.D. Pa. 1987).

9. Debtor TransTexas has determined that selling the lease interests to Chaparral and entering into the Term Assignment will realize the greatest possible recovery for its creditors and other parties-in-interest. The proposed trade offers the Debtors an opportunity to

participate as a Non-Operator for a significant interest in a third-party's prospect at no additional up-front cost or risk. The proposed trade will involve only "excess" acreage (acreage not critical to TransTexas's drilling prospect) and the rights transferred will revert to TransTexas if Chaparral does not conduct the specified drilling operations before September 11, 2003. The Term Assignment does not diminish or impair TransTexas' ability to drill and test the original objectives in the Sandy Creek Prospect.

10. The Debtors are informed and believe that (i) GMAC Commercial Credit LLC ("GMAC"), as lender and as agent, (ii) Credit Suisse First Boston Management Corporation, (iii) Angelo Gordon & Co. L.P., (iv) Oaktree Capital Management, as lenders, assert liens against the Prospects by virtue of an Oil & Gas Revolving Credit and Term Loan Agreement ("Oil & Gas Facility") dated March 15, 2000. The value of the secured claims pursuant to the Oil & Gas Facility is approximately \$51,937,500, plus accrued interest.

11. The Debtors also are informed and believe that FirstStar Bank, N.A. n/k/a U.S. Bank National Association ("US Bank"), as Trustee for the 15% Senior Secured Notes Due 2005, assert a lien against the Prospects by virtue of an Indenture ("Indenture") dated March 15, 2002. The value of the secured claims pursuant to the Indenture is \$216,333,333, plus accrued interest

12. Pursuant to § 363(f)(3) of the Bankruptcy Code, the Debtors seek authority to sell the interests in the Prospects free and clear of all liens, claims and interests, with such liens, claims and interests, including the lien asserted by GMAC, as lender and agent, and US Bank, as Trustee to attach to the proceeds of such sale, subject to the rights and defenses, if any, of the Debtor with respect to thereto. *In re Elliot*, 94 B.R. 343, 345 (E.D. Pa. 1988)(section

363(f) written in disjunctive; court may approve sale “free and clear” provided at least one requirement is met).

Notice

13. As of the filing of this Motion, no trustee, examiner or creditors’ committee has been appointed in these Chapter 11 Cases. As set forth in the certificate of service attached hereto, the Debtors have served all parties required to receive notice pursuant to this Courts’ Order regarding complex case procedures dated November 15, 2002. Because of the exigencies of the circumstances and the irreparable harm to the Debtors, their estates, and all parties in interest that will ensue if the relief requested herein is not granted, the Debtors submit that no other notice need be given.

14. The terms and conditions described in this Motion are CONFIDENTIAL AND PROPRIETARY. Any party-in-interest that files an objection to this Motion may obtain more specific information by executing a Confidentiality Agreement provided by the Debtor on or before December 10, 2002 – the date on which the Debtor will seek an expedited hearing on the Motion.

15. No prior Motion for the relief requested herein has been made to this or any other Court.

WHEREFORE, the Debtors pray that for an order allowing the sale of the Prospects free and clear of all liens and interests, including those of GMAC, as lender and agent, and US Bank, enter into the proposed Term Assignment with Chaparral Natural Resources, Inc. on the terms and conditions described in this Motion, and for such other and further relief to which the Debtors may be entitled.

Respectfully submitted,

/s/ Stephen A. Roberts

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**Counsel for the Debtors**

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the forgoing motion was sent to all parties listed on Service list "A" via e-mail, and to all parties on listed on Service list "B" via U.S. First Class Mail postage pre-paid on the 4th day of December, 2002.

/s/ Duane J. Brescia

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State Comptroller of Public Accounts  
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Capital Management, LLC, and Angelo,  
Gordon & Co. LP

High River Limited Partnership  
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KRM Investments  
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State of Texas  
Comptroller of Accounts  
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A Rex Trucking, Inc. Affiliate  
C/o Metro Financial Svcs.  
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Coastal Flow Measurement Inc.  
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Houston, TX 77258

Wright Express Corp.  
Fleet Fueling  
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Carol Stream, IL 60197-6293

Superior Energy Svcs. Corp.  
F/k/a Carkinal Services  
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Shamrock Equipment Rental  
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Workstation Integrations Inc.  
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Katy, TX 77450

KDR Supply, Inc.  
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Liberty, TX 77575

Dru-Chem, Inc.  
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El Campo, TX 77437

Houston Supply and Manufacturing Co.,  
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Verizon Wireless  
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Circle C. Welding  
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Anahuac, TX 77514

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Eagle Lake, TX 77434

Thomas Petroleum, Inc.  
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Victoria, TX 77903-4317

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Farm & Home Supply, Inc.  
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**MOTION OF THE DEBTORS FOR AUTHORIZATION TO (I) SELL REAL PROPERTY FREE AND CLEAR OF LIENS AND OTHER INTERESTS PURSUANT 11 U.S.C. § 363 AND (II) ENTER INTO TERM PARTIAL ASSIGNMENT OF OIL, GAS & MINERAL LEASES WITH CHAPARRAL NATURAL RESOURCES, INC. – page 10**

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